

Date of Hearing: March 14, 2016

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Matthew Dababneh, Chair

AB 1784 (Dababneh) – As Amended March 3, 2016

SUBJECT: State banks

SUMMARY: Allows state chartered banks to participate in school-based savings programs (Programs). Specifically, **this bill:**

- 1) Permits the Programs to receive deposits or pay withdrawals on the premises of, or at a facility used by, a school.
- 2) Specifies that the school premises or facility will not be considered a branch office if:
 - a) The bank does not establish and operate the school premises or facility in which the program is conducted;
 - b) Bank employees work at the site only to participate in the Program;
 - c) The Program is provided at the discretion of the school;
 - d) The principal purpose of the Program is financial education; and,
 - e) No services are provided to the general public.

EXISTING LAW allows a savings association to contract with the authorities of any public or nonpublic elementary, secondary school or institution of higher learning, or any public or charitable institution caring for minors, for the participation and implementation by the association in any school or institutional thrift or savings plan, and it may accept savings accounts at the school or institution, either by its own collector or by any representative of the school or institution that becomes the agent of the association for that purpose. [Financial Code, Section 6700]

FISCAL EFFECT: Unknown.

COMMENTS:

Need for the bill:

These Programs are a collaborative effort between banks and elementary, middle and high school administrators and teachers that provide financial education activities through presentations, classes and curriculum development. The Programs are often structured as in-school credit union or bank programs that offer students basic savings accounts. These Programs range from “mini banks” that offer student savings accounts to more complex programs that offer career-oriented banker training. The Programs help students understand the value of saving by opening and managing savings accounts. The Programs may also include banker classroom presentations on saving and other financial education topics and field trips to banks so students can observe how banks operate. Typically, bank staff is available to answer financial education and banking-related questions that students, faculty, parents, and school administrations ask.

Additionally, the Programs teach students about the importance of savings and financial management. Research indicates that these Programs may be effective in helping improve long-term financial and education outcomes, such as completing college.

These programs provide a valuable service to the community and assist banks in meeting their federally mandated Community Reinvestment Act obligations. National banks and California savings associations are already authorized to participate in the Programs; however, a gap exists in California law that prevents state-chartered banks from engaging in these Programs because a branch license and related operations are presently required at each participating school. AB 1784 will close this gap so that state-chartered banks can provide these educational services.

Background:

On February 24, 2015, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration, and the Office of the Comptroller of the Currency, as members of the Financial Literacy and Education Commission together with the Financial Crimes Enforcement Network of the U.S. Department of the Treasury issued guidance to encourage financial institutions to develop youth savings programs. The purpose of the guidance was to encourage financial institutions to develop and implement programs to expand the financial capability of youth and build opportunities for financial inclusion for more families.

The federal guidance stated that the school is not considered a bank branch when the following conditions are met:

- 1) The bank does not establish and operate the school premises or facility on which the financial literacy program is conducted.
- 2) Bank employees work at the site only to participate in the program.
- 3) No services are provided to the general public.
- 4) The principal purpose of the financial literacy program is educational. For example, a program is educational if it is designed to teach students the principles of personal economics or the benefits of saving for the future and is not designed for the purpose of profit-making.

In addition, Texas recently took action. The Texas Administrative Code now provides a similar provision in Rule § 1544 in Title 7, Part 2, Chapter 15, Subchapter C. It provides that a state bank's school-based savings program is not considered a branch if the program meets certain conditions similar to those in AB 1784.

To set up a program on school premises, a bank works with school administrators and teachers who are interested in providing financial education to their students. In cooperation with school administration and faculty, a bank determines where the program is to be located on school premises; what the days and hours of operation will be; which financial services are to be offered; and how students, faculty, school administration, and parents will participate in the program. In addition, on August 4, 2014, the FDIC announced a two-year FDIC Youth Savings Pilot Program aimed at identifying and highlighting promising approaches to offering financial education tied to

the opening of safe, low-cost savings accounts for school-aged children. The first phase of the Pilot was open to institutions currently working with schools or nonprofit organizations that help students open savings accounts in conjunction with financial education programs during the 2014-15 school year. Phase I started with the 2014-15 school year and will conclude at the end of the 2015-16 school year. Only one program in California is part of the pilot program currently.

Summary of the Phase I Participants:

Athol Savings Bank, a \$335 million state nonmember bank headquartered in Athol, Massachusetts. The bank's Save\$um Banking program has operated in five elementary schools for 12 years. These in-school bank branches are operated by students, with oversight from parents, teachers, and bank employees. Students receive small incentives from the bank when they open and continue saving in the account.

Bank of Hawaii, a \$14 billion state member bank headquartered in Honolulu, Hawaii. The bank targets 10th graders at two high schools in Leeward Oahu, HI, in collaboration with Hawaiian Community Assets (a non-profit). The bank provides the largely low- and moderate-income, native Hawaiian student population with age and culturally appropriate financial education and then offers to open a no fee, no minimum balance savings account.

Capital One, National Association, a \$255 billion national bank headquartered in McLean, Virginia. The bank has four student-operated bank branches on low- and moderate-income school campuses in Bronx, New York, Harlem, New York, Newark, New Jersey and Riverdale, Maryland. Students need \$1.00, their school ID, and their Social Security number to open a savings account at the school. Students are hired into teller positions at the end of their junior year. The student bankers provide financial education to their peers.

First Bank of Highland Park, a \$1.2 billion state nonmember bank headquartered in Highland Park, Illinois. The bank works with a private school and non-profits. A minor receives a \$25 bonus from the bank when opening a new savings account and another \$10 bonus after the tenth deposit. The bank's financial education activities (which are based on Money Smart) are delivered monthly between October and April.

First Metro Bank, a \$532 million state nonmember bank headquartered in Muscle Shoals, Alabama. The bank implemented two student-run bank branches in local high schools in 2013. Students can open a savings account at the school without an adult custodian at the age of 15. The account has a \$1 minimum balance with no minimum balance or maintenance fees. Teachers and bank staff provide financial education.

Montecito Bank & Trust, a \$1.1 billion state nonmember bank headquartered in Santa Barbara, California. The bank provides financial education through several predominately low- and moderate-income schools in Santa Barbara and Ventura Counties. Students can open a savings account with a \$5 deposit, and the bank provides an incentive to students for regularly saving.

Treynor State Bank, a \$307 million state nonmember bank headquartered in Treynor, Iowa. The bank facilitates three in-school banking programs—they are in two elementary schools (one of which is low- and moderate-income) and one high school (also a low- and moderate-income school). Teachers and bank staff provide financial education. The bank provides small incentives

to students for opening an account and then for continuing to save in it. Students, with supervision from bank employees, operate the school bank branches.

Young Americans Bank, a \$15 million state nonmember bank headquartered in Denver, Colorado. Young Americans opened a branch in January 2013 on a Denver Public Schools campus that serves 1,700 students in grades K-12. This branch is in one of the poorer areas of Colorado. The bank modified its policies in response to the identified needs of the student population, such as allowing youth under age 18 to open accounts with a parent's consent because many parents served by this school lack a state-issued ID. Bank staff provides financial education through the school.

Wesbanco Bank, Inc. a \$6.3 billion state nonmember bank headquartered in Wheeling, West Virginia. Bank staff uses an array of financial education tools (including Money Smart). Their school-based savings program requires a \$10 minimum opening deposit and parental consent. After three months, the bank deposits \$10 into the minor's account. Students participating in financial education classes also receive a bonus of another \$10.

Phase II of the FDIC Youth Savings Pilot Program consists of a group of 12 banks that are carrying out a new or expanded program during the 2015-2016 school year. The FDIC selected these banks from the group of banks that submitted an expression of interest in participating in Phase II.

These 12 banks joined the nine banks that are participating in Phase I of the FDIC Youth Savings Pilot.

Summary of Phase II Participants

Beneficial Bank, a \$4.8 billion state nonmember bank headquartered in Philadelphia, Pennsylvania. The bank has an established program in eight high schools and non-profits in greater Philadelphia and south New Jersey. The bank plans to expand the program to several additional low- and moderate-income schools.

Caldwell Bank & Trust Company, a \$165 million state nonmember bank headquartered in Columbia, Louisiana. The bank has an established savings program for 5th graders in four elementary schools in low- and moderate-income areas. The bank will expand this program by providing teachers with financial education lesson materials and working with them to teach about money.

Commercial Bank, an \$818 million state member bank headquartered in Harrogate, Tennessee. The bank entered into a partnership with the Harlan, Kentucky Board of Education to start a new program beginning in August, 2015.

Fidelity Bank, an \$812 million state non-member bank headquartered in New Orleans, Louisiana. The bank plans to launch a new program at several schools that will feature regular "banking days" and monthly financial education lessons provided by bank staff.

International Bank of Commerce, a \$10 billion state nonmember bank headquartered in Laredo, Texas. The bank plans to add a savings component to its existing well-established financial education program offered in various K-12 schools in low- and moderate-income areas.

Passumpsic Savings Bank, a \$577 million state nonmember bank headquartered in St. Johnsbury, Vermont. The bank, in partnership with AHEAD Homeownership Center, plans to introduce a new program for students in grades 1-3 at seven elementary schools in Coos County, New Hampshire.

PNC Bank, National Association, a \$340 billion national bank headquartered in Wilmington, Delaware. The bank operates in-school banks at 83 low- to moderate-income schools that include offering financial education to both students and educators. They plan to expand their program at the beginning of the school year to include additional low- to moderate-income schools.

Reading Co-operative Bank, a \$477 million state member bank headquartered in Reading, Massachusetts. The bank currently has a full-service branch in a local high school. The bank plans to expand their savings program to a neighboring community, which is a predominately low- and moderate-income area.

ServisFirst Bank, a \$4.4 billion state nonmember bank headquartered in Birmingham, Alabama. The Bank plans to initiate a new savings program targeted to low- and moderate-income schools by collaborating with them to offer a “banking” day, while providing for account opening activities within PTA meetings, back to school nights and other similar events.

Southwest Capital Bank, a \$317 million state nonmember bank headquartered in Albuquerque, New Mexico. The bank will partner with a local non-profit organization to launch a new program to a group of low-income, underserved students at a predominately low- and moderate-income middle school.

The Hastings City Bank, a \$306 million state nonmember bank headquartered in Hastings Michigan. The bank plans to partner with a community foundation and all school districts in Barry County, Michigan to implement a new savings program. The community foundation will open a savings account at the bank for every kindergartner in the county starting in January of 2016.

The Huntington National Bank, a \$69 billion national bank headquartered in Columbus, Ohio. The bank plans to expand its existing Huntington Kids Club savings program from serving five elementary schools to ten schools this fall, primarily in low- and moderate-income areas.

REGISTERED SUPPORT / OPPOSITION:

Support

California Bankers Association (CBA) – Sponsor
California Community Banking Network (CCBN)

Opposition

None on file.

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